

<b>UNITED STATES BANKRUPTCY COURT DISTRICT OF NEW JERSEY Caption in Compliance with D.N.J. LBR 9004-1(b)</b>	
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In re:  BLOCKFI INC., <i>et al.</i> , Debtors. <sup>1</sup>	Chapter 11 Case No. 22-19361 (MBK) (Jointly Administered under a Confirmed Plan <sup>2</sup> )

**PLAN ADMINISTRATOR'S THIRD STATUS REPORT TO CREDITORS AND  
ANNOUNCEMENT OF PLANNED 100% DISTRIBUTION  
ON CUSTOMER CLAIMS**

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<sup>1</sup> The Debtors in these Chapter 11 cases, along with the last four digits of each Debtor's federal tax identification number, are: BlockFi Inc. (0015); BlockFi Trading LLC (2487); BlockFi Lending LLC (5017); BlockFi Wallet LLC (3231); BlockFi Ventures LLC (9937); BlockFi International Ltd. (N/A); BlockFi Investment Products LLC (2422); BlockFi Services, Inc. (5965) and BlockFi Lending II LLC (0154). The location of the Wind-Down Debtors' service address is c/o M3 Partners, 1700 Broadway, 19th Floor, New York, NY 10019.

<sup>2</sup> On October 3, 2023, the Court entered an order confirming the Third Amended Joint Chapter 11 Plan of BlockFi Inc. and its Debtor Affiliates Pursuant to Chapter 11 of the Bankruptcy Code (Additional Technical Modifications) (the "Plan") [Docket No. 1609].

Mohsin Y. Meghji, in his capacity as the Plan Administrator (the “Plan Administrator”) for the *Third Amended Joint Chapter 11 Plan of BlockFi Inc. and Its Debtor Affiliates Pursuant to Chapter 11 of the Bankruptcy Code* [Docket No. 1609] (the “Plan”)<sup>2</sup> of BlockFi, Inc., *et al.* (collectively, the “Wind-Down Debtors”), hereby submits this *Third Status Report to Creditors* (the “Report”) and respectfully states as follows<sup>3</sup>:

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## **INTRODUCTION**

1. The Plan Administrator is pleased to announce that the Wind-Down Debtors have closed on a transaction that monetizes all claims against FTX at a substantial premium to their face value, which is sufficient to enable a near-term distribution of **100% of the allowed dollar amount of all allowed customer claims**<sup>4</sup> (the “100% Customer Distribution” on “Customer Claims”), as well as all allowed non-subordinated general unsecured claims. Through the Final Customer Distribution, the Plan Administrator will be able to distribute the maximum amount permitted on Customer Claims under the Plan, less than a year after the Plan became effective.

2. While certain wind-up tasks will remain after the completion of the Final Customer Distribution, the end of this bankruptcy proceeding is in sight. Following the completion of the Final Customer Distribution, the Plan Administrator will determine the assets available for distribution to all remaining claims, monetize all remaining assets, and move to expeditiously close the estates, and work closely with the Joint Liquidators of BlockFi International, to conclude the Bermuda proceedings in compliance with the local legislations and

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<sup>3</sup> Capitalized terms used herein but not otherwise defined shall have the meanings ascribed to them in the Plan.

<sup>4</sup> For the avoidance of doubt: customers are anticipated to receive the maximum amount distributable upon allowed claims, in full and final satisfaction thereof. Holders of Convenience Claims, entitled to receive expedited distributions at an amount capped pursuant to the Plan, may not receive distributions above the capped amount.

laws.

3. These recoveries cannot undo the pain that customers suffered while they were separated from their life savings. Nor does the Plan allow for (nor could estate assets permit) full “in-kind” recoveries in excess of the claim values set forth pursuant to the Plan and section 502(b) of the Bankruptcy Code. However, these recoveries on customer claims, and the timeline those recoveries will be distributed on, were unimaginable when these cases were filed. These results, achieved through tireless effort by the Oversight Board, the Joint Liquidators of BlockFi International , the Plan Administrator’s advisors (including M3 Partners, Brown Rudnick, Haynes & Boone, and Genova Burns), the remaining BlockFi team and employees of the Wind-Down Debtors, multiple mediators, and other parties are remarkable.

4. These results could not have been achieved without this Court’s oversight<sup>5</sup> and the relentless focus of the Court and the professionals involved on returning value to BlockFi’s customers as quickly, completely, and fairly as possible.

### **FTX SALE PROCESS**

5. Following the settlement with FTX that allowed BlockFi’s claims against FTX substantially in full (as allowed, the “FTX Claims”) discussed in the Plan Administrator’s Second Status Report to Creditors (Docket No. 2172), the Plan Administrator began planning for subsequent distributions to BlockFi customers based on anticipated FTX distributions. An important feature of the FTX Settlement was that the Plan Administrator would have the option to monetize the FTX Claims through a sale of the FTX Claims to a third party.

6. In consultation with the Oversight Committee, the Plan Administrator determined to investigate potential avenues to monetize the FTX Claims, and to compare

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<sup>5</sup> Together with the cooperation of the Supreme Court of Bermuda (the “Bermuda Court”)

potential sale outcomes to present value projections of distributions under a hypothetical confirmed FTX plan. As part of this investigation, M3 Partners and Brown Rudnick conducted modeling exercises and canvassed the market to determine a range of potential prices, and to determine the best time to launch any marketing process.

7. In June 2024, the Plan Administrator determined that a sale would be possible at a level sufficient to maximize customer returns, potentially generate recoveries for subordinated creditors, and eliminate timing and execution risks to the BlockFi estates with respect to their FTX claims. The Plan Administrator launched a sale process on June 24, 2024, reaching out individually to over a dozen parties known to be interested in purchasing FTX claims, as well as filing a notice of the sale process to ensure any uncontacted parties were aware of the potential sale (Docket No. 2344).

8. A number of parties participated extensively in the process. Following the bid deadline, the Plan Administrator, the Oversight Committee, M3 Partners, and Brown Rudnick quickly reviewed the bids and engaged with certain bidders to finalize their proposals. In consultation with the Oversight Committee, the Plan Administrator determined the highest and best bid, and that accepting that bid was in the best interests of the Wind-Down Debtors and executed on binding documentation to sell all of BlockFi's FTX Claims (subject to pending Bermuda Court approval, which has since been obtained) (the "Claims Sale").

9. On July 10, 2024 the Plan Administrator closed on the Claims Sale and received the full purchase price consideration. The purchase price was a substantial premium to the face value of the FTX Claims.

**100% CUSTOMER DISTRIBUTION**

10. As the claims reconciliation process is substantially complete<sup>6</sup> and the estate has sufficient funds on hand as a result of the FTX claims sale, the Plan Administrator intends to commence the Final Customer Distribution as quickly as reasonably practicable. The Final Customer Distribution will differ in certain respects from the First Interim Distribution due to the closure of BlockFi's systems, as described below.

11. Because BlockFi's systems are no longer active, the only option for "in-kind" distributions is through the Plan Administrator's partnership with Coinbase.

12. Shortly after August 23, 2024, the Plan Administrator and Coinbase will determine all "matching" accounts<sup>7</sup>: all BlockFi customer accounts eligible for distribution where a Coinbase account matches all of the following:

- Email address
- Date of birth
- Last name

The Plan Administrator advises all customers that wish to obtain an in-kind distribution to set up a matching Coinbase account as quickly as possible. For Customers who have an existing account with Coinbase, the Plan Administrator advises all customers to contact Coinbase to ensure their accounts remain open and valid. The Plan Administrator is unable to assist customers who are unable to open a Coinbase account for any reason.

13. **Parties who cannot or do not open an account with Coinbase by the deadline of August 23, 2024 will not be eligible for in-kind distributions and will receive distributions**

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<sup>6</sup> A handful of customer claims remain that are subject to appeals or to litigation associated with certain seizure warrants, and certain insurance and bond-related claims and certain subordinated claims remain outstanding.

<sup>7</sup> Coinbase distributions for BlockFi International accounts remain subject to discussion with the relevant authorities including the Bermuda Monetary Authority.

**only in cash, including any undistributed portion of their First Interim Distribution. The Plan Administrator does not have the capability to make in-kind distributions except through Coinbase.**

14. Due to the need to “rebalance” the cash proceeds of the FTX claims sale by purchasing the necessary BTC and ETH, the Plan Administrator will be unable to extend this deadline.

15. BlockFi customers entitled to a distribution with a “matching” Coinbase account on August 23, 2024 will be eligible for in-kind distributions. The dollar value used for BTC and ETH distributions will be set following August 23, 2024, based on the actual trading prices obtained when the Plan Administrator “rebalances” assets to obtain the necessary BTC and ETH.

**To be clear, this BTC and ETH value will differ from that used in the First Interim Distribution.**

16. All BlockFi customers without a “matching” Coinbase account on August 23, 2024, and all customers with a non-BTC and non-ETH distribution entitlement, will receive a cash distribution through the Wind-Down Debtors cash distribution partner, Digital Disbursements.

17. The 100% Customer Distribution will begin as soon as practicable after August 23, 2024. As a reminder, **any unclaimed cash distributions will revert to the Wind-Down Debtors after six months**<sup>8</sup>. The Plan Administrator strongly advises all customers to claim their cash distribution as quickly as possible. The Plan Administrator will be unable to assist customers who do not do so and whose distribution reverts to the estate.

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<sup>8</sup> Unclaimed cash distributions for BlockFi International is subject to and will be dealt with in compliance with the local legislations and laws.

18. At the same time as the Final Customer Distribution, the Plan Administrator will make a full distribution in cash on all allowed, non-subordinated general unsecured claims.

**WARNING ABOUT PHISHING AND OTHER CRIMINAL ACTIVITY**

19. Criminals have, unfortunately, persisted in attempting to scam victims of BlockFi's collapse as well as those of other cryptocurrency bankruptcies. The Plan Administrator expects that these criminals will take this good news for customers as one final chance to attempt to steal customer funds.

20. The Plan Administrator is aware of attempts to scam customers **by phone** in addition to the unfortunately high level of email scam attempts. These calls have taken the guise of purporting to be from BlockFi, Kroll, and Coinbase.

21. Customers will receive distributions from BlockFi **only** in the form of cash payments through Digital Disbursements, or deposits **directly** into a "matched" Coinbase account. Receiving a deposit in your Coinbase account **requires no action on your part** other than ensuring that the information matches your BlockFi account. If you are contacted to do anything with your Coinbase account relating to BlockFi other than ensuring that it has "matching" information, you should not do so.

22. Customers should remember that **BlockFi will make no further in-kind distributions except through Coinbase. If you receive an email, phone call, or other communication purporting to offer you a cryptocurrency distribution on behalf of BlockFi, disregard that communication.**

23. **BlockFi and the Plan Administrator will never do any of the following:**

- Email you and ask you to "link" a cryptocurrency wallet.
- Call you for any reason whatsoever, including to "verify" personal or account

information.

- Request your Coinbase login.
- Directly link you to Coinbase.

24. **Carefully check the domain name of any email you receive purporting to be from the Plan Administrator or BlockFi.** Any email communication on behalf of BlockFi or the Plan Administrator with regard to your distributions will only come from one of the following domains.

- blockfi.com
- kroll.com
- digitaldisbursements.com
- coinbase.com

#### **REMAINING ISSUES FROM FIRST INTERIM DISTRIBUTION**

25. The Plan Administrator has distributed approximately 75% of the funds allocated to allowed claims for the First Interim Distribution. Distributions continue to be made, but certain issues remain in completing the First Interim Distribution.

26. *First*, distributions out of BlockFi International have been limited due to certain Bermuda regulatory issues. While the Plan Administrator and the Joint Liquidators have worked through a number of these regulatory issues and issued a number of distributions to BlockFi International customers, certain distributions remain on hold pending full resolution of these regulatory issues (including completion of related KYC/AML processes as noted below) in compliance with Bermuda legislation and laws. However, a substantial number of previously frozen distributions have recently been cleared to distribute and the Plan Administrator is working to make those payments as quickly as practicable. Further payments will be made as soon as

practicable after the associated accounts are cleared.

27. **These regulatory requirements may require further identity verification and “Know Your Customer” diligence for distributions that have not been made. The Plan Administrator and Joint Liquidators are working to resolve these issues and perform any necessary diligence as quickly as possible. BlockFi International customers may be contacted to provide information or documents required for such diligence, and the Plan Administrator will file a notice describing the process when it is confirmed with the relevant authorities so that customers can verify incoming requests.**

28. *Second*, a number of parties did not withdraw their “in-kind” distributions from BlockFi’s systems prior to their closure on May 31 in whole or in part.<sup>9</sup> The Plan Administrator has been working to make these distributions through Coinbase. For claimants that do not or cannot obtain a “matching” Coinbase account (as discussed above) on or before August 23, 2024, the Plan Administrator will liquidate such in-kind distribution amount and distribute that amount in cash (based on the actual price realized in such liquidation, which may differ from the price at which it was deemed made to customers in the First Interim Distribution).

29. *Third*, certain accounts were flagged pre-petition by BlockFi for various compliance issues. Those issues are discussed in the Plan Administrator’s Motion to Approve KYC/AML Protocols for US-Based Accounts (Docket No. 2349), seeking certain relief with respect to procedures on those accounts to allow for distributions on U.S. based accounts or to provide the account-holder with an avenue for relief. As noted above, Plan Administrator is working with the Joint Liquidators and Bermuda counsel with respect to resolving similar issues

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<sup>9</sup> Certain individuals had in-kind distributions that could not be withdrawn because BTC or ETH network fees exceeded the amount of the distribution. Those amounts are being transferred to Coinbase.

under Bermuda law for BlockFi International accounts.

**CONCLUSION**

30. The Plan Administrator is pleased to be able to deliver these extraordinary results within a year of his appointment. The Plan Administrator's overriding focus is on the prompt commencement and conclusion of the Final Customer Distribution. Following that distribution, the Plan Administrator anticipates a prompt resolution of all remaining issues in this bankruptcy case, in consultation with the estates' remaining stakeholders, distribution of remaining assets, and closure of these bankruptcy proceedings.

Dated: July 22, 2024

*/s/ Mohsin Y. Meghji*

Mohsin Y. Meghji, solely in my capacity as  
the Plan Administrator

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